

Message Text

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PAGE 01 TOKYO 09173 01 OF 02 210317Z
ACTION EA-09

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CINCPAC HONOLULU HI
COMUSJAPAN YOKOTA AB JA

LIMITED OFFICIAL USE SECTION 1 OF 2 TOKYO 9173

JOINT EMBASSY/USFJ MESSAGE

DEFENSE FOR BIFPD

CINCPAC FOR J72

E.O. 11652: N/A
TAGS: MARR, EFIN, JAP, ABUD
SUBJECT: YEN ACQUISITION FOR US FORCES JAPAN

REF: STATE 088898

1. SUMMARY: AS INSTRUCTED REFTEL, EMB AND US FORCES JAPAN (USFJ) REPRESENTATIVES HAVE HELD SERIES OF MEETINGS WITH MINISTRY OF FINANCE (MOF) REPRESENTATIVES AND WITH LOCAL MILITARY BANKING FACILITY (MBF) AND COMMERCIAL BANK REPRESENTATIVES TO EXPLORE VARIOUS POSSIBLE CHANGES IN PROCEDURES FOR OBTAINING YEN FOR USE OF USFJ WHICH WOULD LEAD TO THESE PURCHASES BEING CHanneled INTO FOREIGN EXCHANGE MARKET. ON BASIS OF THESE DISCUSSIONS, EMB AND USFJ, ARE UPON RECEIPT OF AUTHORIZATION, PREPARED TO ADVISE GOVT OF JAPAN THAT U.S. IS PREPARED TO DISCUSS IN FINANCE SUBCOMMITTEE
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PAGE 02 TOKYO 09173 01 OF 02 210317Z

OF JOINT COMMITTEE ALTERNATE MEANS OF MEETING USFJ YEN REQUIREMENTS. END SUMMARY.

2. EMB AND USFJ REPRESENTATIVES HAVE HELD SERIES OF MEETINGS WITH MOF, MBF'S AND COMMERCIAL BANKS TO EXPLORE POSSIBLE CHANGES IN PROCEDURES FOR OBTAINING YEN FOR USE OF USFJ.

3. FOCUS HAS BEEN ON POSSIBILITY OF YEN PURCHASES THROUGH FOREIGN EXCHANGE BANKS (AS JAPANESE SUGGESTED), BECAUSE MOF OFFICIALS MADE CLEAR EARLY IN DISCUSSIONS THEY HAD DIFFICULTY WITH IDEA OF BANK OF JAPAN'S SELLING INTO THE FOREIGN EXCHANGE MARKET DOLLARS ACQUIRED IN PROCESS OF SUPPLYING USFJ WITH YEN. THEIR PRINCIPAL CONCERN SEEMED TO BE THAT BOJ RESALES INTO THE MARKET ACCORDING TO SOME PRIOR AGREEMENT MIGHT RESULT IN EITHER CONFUSING THE MARKET BY GIVING FALSE SIGNALS OR INOPPORTUNELY REINFORCING A TREND, OR BOTH. WHILE A CHANGE TO THIS PROCEDURE IS ADMINISTRATIVELY THE MOST SIMPLE METHOD FOR US AND OBVIOUSLY COSTS LESS, WE ALSO RECOGNIZE IT POSES PROBLEMS FOR THE JAPANESE. HOWEVER, WE WOULD RECOMMEND FORMALLY LEAVING THIS OPTION OPEN UNTIL FULL AGREEMENT IS REACHED WITH GOJ AND WITH COMMERCIAL BANKS, AND WE THUS SUGGEST NEGOTIATIONS IN THE FINANCE SUBCOMMITTEE BE INITIATED TO EXPLORE BORADLY YEN ACQUISITION PROCEDURES FOR U.S. FORCES OTHER THAN THE METHOD NOW USED.

4. OUR DISCUSSIONS OF POSSIBLE TECHNIQUES FOR EFFECTING PURCHASES DIRECTLY FROM THE FOREX MARKET RATHER THAN FROM THE BOJ HAVE FOCUSED ON THE FOLLOWING ASPECTS: (I) SELECTION OF AGENT; (II) COSTS; (III) ADMINISTRATIVE PROBLEMS.

5. (I) SELECTION OF AGENT: ALTHOUGH MOF LETTER PROPOSING SWITCH-OVER TO PURCHASES FROM MARKET REFERS TO PURCHASES FROM JAPANESE FOREX BANKS, MOF OFFICIALS CONFIRM THAT INTENT WAS USE OF PRESENTLY AUTHORIZED FOREX BANKS IN JAPAN, WHICH INCLUDES LIMITED OFFICIAL USE

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PAGE 03 TOKYO 09173 01 OF 02 210317Z

BRANCHES OF AMERICAN COMMERCIAL BANKS OPERATING IN JAPAN. (FYI JAPANESE MAY EVEN BE PRIVATELY RELIEVED NOT TO HAVE TO BECOME INVOLVED IN DECIDING WHAT BANKS WOULD GAIN THE BUSINESS. END OF FYI).

(II) WE SUGGEST USE OF COMMERCIAL BANKS PRESENTLY OPERATING MBF'S IN JAPAN -- TO WIT, AMEXCO AND CHASE. BY SO DOING, POSSIBILITIES ARE ENHANCED OF OBTAINING SERVICES AT MINIMUM COST BECAUSE BANKS CAN BE EXPECTED TO TAKE INTO ACCOUNT TOTAL VOLUME OF BUSINESS WITH A CUSTOMER IN PRICING THEIR SERVICES. IN THIS CONNECTION, WE CONSIDERED GOING TO A DAILY BIDDING SYSTEM, BUT DID NOT PERCEIVE ANY BENEFIT, SINCE TRANSACTIONS WILL UNDER ANY CIRCUMSTANCES BE HANDLED MAINLY THROUGH SAME FOREX BROKERS WHO HANDLE ALL INTER-BANK TRANSACTIONS IN TOKYO FOREIGN MARKET. IN OTHER WORDS, MAXIMUM POTENTIAL FOR USFJ'S UTILIZING POSITION AS LARGE CUSTOMER SEEMS TO BE TO NEGOTIATE BASIC AGREEMENT WITH AMEXCO AND CHASE REGARDING COMMISSIONS; AND WE WOULD EXPECT THEM TO BE ABLE TO GET AS GOOD A PRICE IN THE MARKET AS COULD ANYONE ELSE.

(III) WE EXPLORED POSSIBILITY OF AUTHORIZING MBF'S TO ACQUIRE YEN IN MARKET. JAPANESE INDICATED THAT MBF'S ARE NOT AUTHORIZED

TO DEAL IN FOREX MARKET; AND THEY SUGGESTED THAT GRANTING SUCH AUTHORITY WOULD BE DIFFICULT. (FYI THE EXCHANGE CONTROL LAW SPECIFIES ONLY JAPANESE RESIDENTS ARE AUTHORIZED ACCESS TO THE FOREIGN EXCHANGE MARKET, AND CABINET ORDER 127 SPECIFIES MBF'S DO NOT HOLD RESIDENT STATUS. END OF FYI). THERE ARE ALSO QUESTIONS AS TO WHETHER IT IS NECESSARY OR DESIRABLE FOR MBF'S (A) TO BUILD UP STAFF WHICH WOULD BE NEEDED TO HANDLE FOREX TRADING OPERATION AND (B) TO ACCEPT RISKS INHERENT IN SUCH BUSINESS.

6. COSTS: (I) AS WASHINGTON AGENCIES ARE AWARE, AT PRESENT MBF'S ACQUIRE YEN FROM BOJ (VIA THEIR COMMERCIAL BANK) AT PREVIOUS DAY'S MAJORITY RATE. THIS IS A MODAL RATE -- THE RATE AT WHICH THE LARGEST VOLUME OF DOLLARS WAS TRANSACTED ON THE DAY CONCERNED. IT CAN BE EITHER HIGHER OR LOWER THAN THE ARITHMETIC AVERAGE LIMITED OFFICIAL USE

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PAGE 04 TOKYO 09173 01 OF 02 210317Z

RATE OR THE RATE AT WHICH NON-MODAL TRANSACTIONS TAKE PLACE. IT HAS CERTAIN ADVANTAGES OVER OTHER RATES WHICH MIGHT BE OBTAINED: IT IS ADMINISTRATIVELY HELPFUL IN THAT IT ALLOWS PROMULGATION TO ALL USFJ ACTIVITIES AND ENSURES CONSTANT DAILY EXCHANGE RATE FOR THE MILITARY THROUGHOUT JAPAN; AND IT AVOIDS THE SMALL (ROUGHLY \$35 PER MILLION DOLLARS OF TRANSACTIONS) CHARGE BY FOREX BROKERS IN THE TOKYO FOREX MARKET.

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PAGE 05 TOKYO 09173 01 OF 02 210317Z

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PAGE 01 TOKYO 09173 02 OF 02 210327Z

ACTION EA-09

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FM AMEMBASSY TOKYO

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LIMITED OFFICIAL USE SECTION 2 OF 2 TOKYO 9173

JOINT EMBASSY/USFJ MESSAGE

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(II) THE MAJORITY RATE IS USED BY CHASE/AMEXCO MBF'S FOR SALE OF YEN TO FINANCE OFFICERS FOR OFFICIAL USE. MBF'S SELL TO NONAPPROPRIATED FUNDS (NAF), CLUBS, MESSES, ETC. AT THE NEXT HIGHER ROUND NUMBER (E.G. IF THE MAJORITY RATE IS 277.80, MBF'S SELL AT 277 TO THE DOLLAR). SALES OF ACCOMMODATION EXCHANGE TO INDIVIDUALS IS AT RATE TWO YEN ABOVE RATE FOR NAF, CLUB MESSES, ETC. (275 IN ABOVE EXAMPLE).

(III) COMMERCIAL BANK REPRESENTATIVES HAVE INDICATED THAT THEY MIGHT BE PREPARED TO SUPPLY YEN FOR USFJ AT ONE YEN OVER THE MORNING FIXING RATE, WHICH IS RATE FIXED EACH MORNING AT 10:00 A.M. BY JAPANESE FOREX BANKS ON THE BASIS OF TRADING DURING THE OPENING HOUR OF TRADING (WHICH BEGINS AT 9:00 A.M.). THIS RATE, CALLED THE TT RATE, IS A MODAL RATE AND DOES NOT DIFFER CONCEPTUALLY FROM MAJORITY RATE. TT RATE IS ALSO A RATE WHICH IS LIMITED OFFICIAL USE

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PAGE 02 TOKYO 09173 02 OF 02 210327Z

GIVEN PREFERRED CUSTOMERS; OTHERS NORMALLY PAY UP TO TWO YEN ABOVE THE MORNING FIXING.

(IV) IT REMAINS TO BE SEEN WHETHER AN EVEN BETTER RATE COULD BE OBTAINED FROM CHASE/AMEXCO. AS SUGGESTED ABOVE, COST FACTORS OTHER THAN THOSE STRICTLY RELATED TO THE COST OF HANDLING THE FOREX OPERATIONS COULD BE TAKEN INTO ACCOUNT IN SUCH DISCUSSIONS. USFJ WOULD SEEK BEST RATE THAT CAN BE NEGOTIATED WITH AMEXCO AND CHASE IF WASHINGTON APPROVES THIS APPROACH. IN 1976 USFJ PURCHASED \$483 MIL WORTH OF YEN FOR OFFICIAL PURPOSES. IF A BETTER DEAL COULD NOT BE NEGOTIATED, INCREASE OF ONE YEN PER DOLLAR WOULD EQUATE TO \$1.6 MIL INCREASE IN COST TO USFJ (AT THE 1976 AVERAGE RATE OF 296.6). IT IS LESS CLEAR WHETHER ADJUSTMENTS WOULD BE REQUIRED IN SELLING RATES FOR OTHER THAN OFFICIAL USE, SINCE THIS WOULD DEPEND UPON WHETHER PRESENT MARKUP FACTORS REMAIN UNCHANGED. APART FROM THE QUESTION OF NEGOTIATING COMMISSIONS, OUR CONCLUSION IS THAT THERE IS NO PREDICTABLE RELATIONSHIP BETWEEN THE COST OF USFJ OF OBTAINING FUNDS IN THE MARKET THRU COMMERCIAL BANKS AS COMPARED WITH THE PRESENT ARRANGEMENT (I.E. BETWEEN USING THE 10 A.M. FIXING RATE OR THE

LATER AFTERNOON MAJORITY RATE).

(VI) IN PRELIMINARY DISCUSSIONS, REPRESENTATIVES OF ONE COMMERCIAL BANK INDICATED THAT, ALTHOUGH RATE MIGHT BE NEGOTIABLE, THEY BELIEVED THAT RATE IS FAIR RATE FOR YEN SALES TO USFJ.

7. ADMINISTRATIVE PROBLEMS: AT PRESENT, THE MAJORITY RATE IS DETERMINED AT MARKET CLOSING, AND THE BOJ PROVIDES YEN AT THIS PRICE THE FOLLOWING DAY.

(I) TO USE A 10:00 A.M. RATE, WHICH WOULD NOT ACTUALLY BE AVAILABLE UNTIL ABOUT 10:15 A.M. WOULD MAKE IT DIFFICULT TO USE THAT RATE THE SAME DAY. THE RATE OF EXCHANGE INFORMATION MUST LIMITED OFFICIAL USE

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PAGE 03 TOKYO 09173 02 OF 02 210327Z

BE TRANSMITTED TO 40-50 ADDRESSEES WHO MUST IN TURN NOTIFY VARIOUS SUBSIDIARY ORGANIZATIONS, MEANING THAT SOME MIGHT NOT HAVE THE INFORMATION UNTIL NOON OR LATER. BANKS HAVE SUGGESTED THAT RATE MIGHT BE USED FOR FOLLOWING DAY, WHICH SHOULD POSE NO MAJOR PROBLEM, ALTHOUGH IF RATES MOVED SHARPLY, THERE WOULD BE SOME POTENTIAL FOR PURCHASERS TO ALTER THEIR CONVERSION PLANS. ONE ALTERNATIVE, TO CHANGE RATE AT MID-DAY, WOULD SEEM TO US TO RAISE MORE ADMINISTRATIVE PROBLEMS THAN IT WOULD SOLVE. WE ARE THUS INCLINED TO RECOMMEND THAT RATE BE APPLIED TO FOLLOWING DAY TRANSACTIONS.

(II) BANK OF JAPAN AT PRESENT ACCEPTS OBLIGATION TO PROVIDE USFJ WITH ITS YEN REQUIREMENTS. IN AGREEING TO YIELD THAT RIGHT, WE BELIEVE U.S. SHOULD SEEK AGREEMENT FROM JAPANESE THAT SHOULD THEY IN THE FUTURE SEE FIT TO CLOSE THE TOKYO FOREX MARKET, THEY WOULD BE PREPARED TO ASSURE THAT USFJ YEN REQUIREMENTS ARE MET.

9. EMBASSY RECOMMENDS THAT WASHINGTON AUTHORIZE US TO INDICATE TO JAPANESE AUTHORITIES THAT U.S. IS PREPARED TO DISCUSS IN FINANCE SUBCOMMITTEE OF JOINT COMMITTEE THAT USFJ YEN REQUIREMENTS BE MET THROUGH ALTERNATIVE MEANS. ASSUMING THAT IN FINAL ANALYSIS AGREEMENT IS REACHED TO USE COMMERCIAL BANKS, USFJ IS PREPARED TO IMPLEMENT SUCH A DECISION, BUT SUGGESTS THAT NEGOTIATIONS WITH CHASE/AMEXCO COMMERCIAL BANKS MUST BE CONSUMMATED BEFORE THE COST IMPACT ON DOD CAN BE DETERMINED.

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Message Attributes

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